ORIGINAL

OPEN MEETING AGENDA ITEM

0000136928

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

2012 MAY 17 P 2: 26

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

MAY 17 2012

DOCKETED BY

COMMISSIONERS

GARY PIERCE – Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

Southwest Gas Corporation's Application for Approval of an Energy Efficiency and Renewable Energy Resource Technology Portfolio Implementation Plan	Docket No.: G-01551-A-11-0344

REPLY COMMENTS OF SOUTHWEST GAS CORPORATION

Southwest Gas Corporation respectfully submits to the Arizona Corporation Commission for consideration the following comments in support of the April 10, 2012 Staff Report and Proposed Order and in response to the Residential Utility Consumer Office's April 23, 2012 Comments:

I.

BRIEF BACKGROUND

On September 13, 2011, Southwest Gas Corporation filed with the Arizona Corporation Commission an application requesting approval of its Arizona Energy Efficiency and Renewable Energy Resource Technology Portfolio Implementation Plan ("EE and RET Plan").

Southwest Gas submits that the EE and RET Plan provides valuable benefits to its customers in the form of lower energy bills and rebates for highly efficient gas end-use appliances – thus giving customers an opportunity to utilize natural gas as an energy source. By approving the EE and RET Plan, the Commission will be providing builders and natural gas customers an opportunity to install cost-effective measures that promote the efficient use of natural gas resulting in lower energy bills for Southwest Gas' customers. In addition, approval of the EE and RET Plan maintains a level playing field among the regulated energy companies in Arizona by providing Southwest Gas and its customers with cost-effective measures and programs similar to what have been approved for the electric utilities who have Commission-approved conservation, energy efficiency, and renewable technology programs and rebates for their customers. Natural gas is one of the cleanest, most efficient and cost-effective energy sources available to customers today. Commission approval of the proposed EE and RET Plan will represent sound energy policy encouraging the increased efficient use of natural gas.

II.
APPROVAL OF THE PROPOSED EE AND RET PLAN WILL PROVIDE VALUE TO SOUTHWEST GAS CUSTOMERS

Southwest Gas is fully supportive of the notion that all Commission-approved energy efficiency programs should be cost effective. By definition, when a program is cost effective it means that the benefits of the program (through lower energy consumption) exceed the costs of the program. Southwest Gas submits that every single program submitted as part of the EE and RET Plan is cost effective, and the pilot programs were designed with a reasonable expectation that they too will be cost effective. Furthermore, given the relative lack of market penetration of natural gas energy-efficiency programs, the Commission's approval of the proposed EE and RET Plan will provide customers and builders an opportunity to harvest the proverbial low hanging fruit that that will result in lower energy bills. The cost effectiveness ratios of the proposed programs range in the EE and RET Plan range from an impressive 1.80 to 7.56. Moreover, the average monthly bill impact of the EE and RET Plan is only $0.65 per customer, yet the average annual savings associated with the proposed programs is expected to grow to approximately $26.10 per customer. Indeed, these programs are extremely cost effective at the budget levels proposed by Southwest Gas.

III
APPROVAL OF THE PROPOSED EE AND RET PLAN IS NECESSARY TO PROVIDE SOUTHWEST GAS A LEVEL PLAYING FIELD VIS-A-VIS ARIZONA ELECTRIC UTILITIES

The EE and RET Plan is also valuable to Southwest Gas and its customers from a competitive standpoint. Natural gas prices are extremely competitive right now and are projected to stay so for the foreseeable future. The EE and RET Plan encourages customers to install measures that promote the efficient use of natural gas and may also encourage them to replace old natural gas appliances with new highly efficient natural gas appliances – instead of a less expensive and less thermally efficient electric appliance. This is especially critical given the magnitude of Commission-approved programs the electric utilities currently have available for their customers.

Accordingly, if the Commission does not approve the EE and RET Plan, Southwest Gas will be placed at a competitive disadvantage vis-à-vis the electric utilities by not having a robust portfolio of Commission-approved programs to offer its customers and builders. Even more troubling is the perverse fuel switching effect this may have – whereby customers are essentially being discouraged from using natural gas appliances and are instead inadvertently encouraged to increase their electric use through the use of Commission-approved electric utility rebate programs. This is particularly problematic in that the electric appliances rely, in part, on significant natural gas electricity generation – indirectly perhaps one of the inherently least efficient natural gas uses available; natural gas is used most efficiently in natural gas appliances in customers' homes and businesses.

Southwest Gas requests the Commission support policies that encourage customers to use natural gas in end-use applications whenever possible – approval of the proposed EE and RET Plan would be representative of such a policy directive and provide a level competitive playing field for Southwest Gas and its customers.

III.

RUCO's COMMENTS SHOULD BE DISREGARDED[1]

Southwest Gas generally appreciates RUCO's concerns about EE and RET Plan spending levels, but suggests that its concerns and arguments are simply misplaced in the instant case. First, RUCO claimed to be supportive of energy efficiency throughout the Gas Utility Energy Efficiency Standards (Gas EE Rules) rulemaking process, but then incomprehensibly opposes Southwest Gas' efforts to make meaningful progress toward meeting that standard in this case by vaguely asserting that the spending levels are "too high". As noted above, the proposed EE and RET Plan is not only indisputably extremely cost

[1] As a technical matter, RUCO never intervened in Docket No. G-01551-A-11-0344. Accordingly, the Commission should disregard there written comments as a matter of law.

effective at the program level, but, moreover, bill impacts associated with the proposed budget are but a fraction of the bill impacts of the electric utility budgets that have already been approved by the Commission. For instance, the total bill impact of the proposed EE and RET Plan is approximately $0.02 per therm or $0.65 per month. This compares quite favorably to electric utility energy-efficiency budgets that have been approved by the Commission that range from $50 million to $180 million, where the resulting bill impacts are approximately $6.50 per month. Southwest Gas does not question the reasonableness of Commission-approved electric utility energy efficiency budgets or bill impacts, but references them only to highlight the fallacy of RUCO's claims. Interestingly, RUCO failed to submit written comments in any electric utility energy efficiency proceedings expressing its newfound concern about customer bill impacts or proposed budget levels associated with energy efficiency programs.

RUCO also misrepresents EE and RET Plan cost effectiveness calculations by incorrectly asserting that the September 30, 2011 and April 10, 2012 Staff Reports and Proposed Orders recommend approval of measures that are not cost effective. The Gas EE Rules require cost effectiveness to be determined with the use of a societal cost test. Staff does not currently use a societal cost test model, but instead uses a total resource cost test model. As properly noted in the Staff Report and Proposed Order, avoided environmental costs have not been monetized but with presumed values greater than zero, Staff rightfully concludes that measures reasonably satisfy the societal cost effectiveness requirements of the Gas EE Rules. Staff's analysis concludes such programs should be allowed to proceed in the EE and RET Plan because if the avoided environmental costs were monetized and factored into the analysis, the measures would certainly be cost effective. Accordingly, RUCO's comments completely overlook the fact that the Staff Report and Proposed Order only supports approval of cost effective measures – meaning the benefits of the programs/measures exceed the costs of the programs/measures.

RUCO further clearly ignores established Commission policy by suggesting that the EE and RET Plan is not necessary because natural gas consumption has been declining without the enhanced energy efficiency efforts that are being proposed as part of the EE and RET Plan. This suggestion ignores the reality that the long-term declining usage trend may not be relied upon by Southwest Gas to comply with the Commission's energy efficiency standard. Indeed, Southwest Gas has been directed by the Commission to accelerate the decline and can only do so with a comprehensive and robust portfolio of energy-efficiency programs with an incrementally higher, but modest and cost-effective, impact on customers. RUCO's argument that declining consumption is occurring absent the EE and RET Plan is short sighted and ignores the existence of a Commission-mandated energy efficiency standard that Southwest Gas must endeavor to achieve. Accordingly, RUCO's proposal to leave the EE and RET Plan budget at $4.7 million should be disregarded.

Notwithstanding RUCO's criticism, the proposed EE and RET Plan promises cost-effective tools for customers that will enable them to experience incremental usage savings and lower energy bills. This point is best illustrated by the fact that the cost effectiveness of the proposed programs range from 1.80 to 7.56 – where the average monthly cost is only $0.65 per customer and the average annual savings associated with the proposed programs is expected to grow to approximately $26.10per customer. A return on investment of over 300%!

IV.

CLARIFICATIONS AND POTENTIAL CONCERNS

Southwest Gas supports the April 10, 2012 Staff Report and Proposed Order, but would appreciate clarification with respect to the following:

- Existing Commission-Approved Measures and Programs. Southwest Gas would like clarification as to whether all existing Commission-approved measures and programs are approved to continue as part of the EE and RET Plan. Based upon Southwest Gas' understanding as to how Staff reviewed the proposed EE and RET Plan, Southwest Gas believes all existing measures and programs would continue as part of the EE and RET Plan. However, Southwest Gas requests that the Commission clarify this point as part of its order.

- Multi-Family Eligibility. As part of the EE and RET Plan, Southwest Gas proposed that individually metered multi-family residential customers are eligible for residential rebates and multi-family master metered customers are eligible for the business rebate programs. The Staff Report and Proposed Order are silent on these two issues. Southwest Gas would like confirmation that the proposed EE and RET Plan is being approved as proposed by Southwest Gas, absent an explicit change noted by the Staff Report or the Proposed Order.

- Cost Effectiveness Testing. Staff recommends "any measures which cease to be cost-effective should be discontinued as part of the implementation plan." Southwest Gas does not take issue with this notion, but is concerned that it implies that the company will be performing on-going cost effectiveness analysis – which is administratively burdensome and unnecessary. Southwest Gas is required to file implementation plans on an annual basis and, as an alternative, proposes to report in those filings the measures that are no longer cost-effective, including the facts and circumstances surrounding each measure and why it is no longer cost effective so that a determination can be made by the Commission regarding the continuation of that particular measure the following year. As such, any discontinuation of Commission-approved measures should be determined annually by the Commission, and not on an ongoing interim basis by Southwest Gas.

- Smarter Greener Better Low-Income Energy Conservation Eligibility. The April 10, 2012 Staff Report and Proposed Order incorrectly references that the company proposed to modify the Smarter Greener Better Low-Income Energy Conservation (LIEC) program eligibility to reflect the Low-Income Home Energy Assistance Program eligibility that is currently 200% of the federal poverty level. To the contrary, Southwest Gas proposes to maintain the eligibility of LIEC at 150% of the federal poverty level, which is also consistent with the company's Low-Income Rate Assistance program.

- Lavatory Aerator. Staff proposes that the lavatory aerator measure be approved. However, this measure was proposed as part of the Residential Assessment pilot program and was not designed nor intended to be a stand-alone measure. Accordingly, if the Commission is inclined to not approve the pilot programs, Southwest Gas proposes to use the allocated budget for the lavatory aerator as part of its other residential rebate programs.

- EE and RET Plan Funding. RUCO has recommended no increase in Southwest Gas' EE and RET Plan funding, but also recommends approval of all cost-effective measures. In the event the Commission adopts RUCO's proposal, it is unclear how Southwest Gas should allocate reduced funding among expanded programs. One Commission option may be to allow Southwest Gas flexibility in allocating approved funding among any approved programs, so long as total annual expenditures do not exceed the Commission-authorized total funding.

CONCLUSION

Based upon the foregoing, Southwest Gas respectfully requests that the Commission approve its proposed EE and RET Plan, or alternatively, the Staff's Proposed Order.

Respectfully submitted this 17th of May 2012.

SOUTHWEST GAS CORPORATION

Justin Lee Brown
Arizona Bar No. 027937
5241 Spring Mountain Road
Las Vegas, NV 89150-0002
702.876.7183
702.252.7283 *facsimile*
justin.brown@swgas.com

Attorney for Southwest Gas Corporation

ORIGINAL AND 13 COPIES of the foregoing filed this 17th day of May 2012 with

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

COPIES of the foregoing served by email/mail this 17th day of May 2012 on:

Dan Pozefsky
RUCO
1110 W. Washington Ste 220
Phoenix AZ 85007

Janice Alward
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Jeff Schlegel
Ellen Zuckerman
SWEEP
1167 West Samalayuca Drive
Tucson, AZ 85704-3224

Steve Olea
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Lynn Farmer
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Cynthia Zwick
1940 East Luke Ave.
Phoenix, AZ 85004

____

An employee of Southwest Gas Corporation